

## Message Text

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70

ACTION EB-11

INFO OCT-01 ARA-11 ADP-00 AID-20 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 INR-10

NSAE-00 L-03 INT-08 SCEM-02 DODE-00 PM-07 COME-00

RSR-01 /113 W

----- 124225

R 212200 Z MAY 73

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 2875

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

INFO AMEMBASSY CARACAS

AMEMBASSY MEXICO

C O N F I D E N T I A L SAN SALVADOR 1936

E. O. 11652 - GDS

TAGS: BDIS, ENRG, ES, XK

SUBJECT: PETROLEUM - ASSURANCE OF SUPPLIES TO CENTRAL AMERICA

GUATEMALA FOR ROCAP

1. HOBART GARDINER, VICE PRESIDENTE ZSSO STANDARD OIL AND GENERAL MANAGER FOR ESSO'S CA AND PANAMA REGIONAL HEADQUARTERS, VISITED ME MAY 18, WITH HIS ASSISTANT, A J CALABRESE. SAYING HIS PURPOSE WAS REGIONALLY DIRECTED, HE PROCEEDED TO DESCRIBE HOW HE PERCEIVED THE PETROLEUM SUPPLY SITUATION FOR CA ( INCLUDING PANAMA) SO I MIGHT CONVEY PERTINENT ISSUES TO MY FELLOW AMBASSADORS AS WELL AS TO THE DEPARTMENT. HE SAID HE DID NOT PRETEND TO REPRESENT THE INDUSTRY, BUT SINCE ESSO IS THE ONLY FIRM TO HAVE A REGIONAL MANAGEMENT WITH SUPPORT STAFF HE SUGGESTED ITS VIEWS MIGHT BE REPRESENTATIVE AND ACCURATE.

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2. GARDINER'S VISIT WAS MOTIVATED BY WHAT HE CALLED THE UNFORTUNATE RESULT OF THE MAY 16 MEETING BETWEEN CHEVRON'S AND SHELL'S GUATEMALAN REPRESENTATIVES WITH PRESIDENT ARANA, WITH WHICH HE SAID AMBASSADOR BOWDLER WAS FAMILIAR. THE PURPOSE OF THE MEETING WAS TO PERSUADE ARANA THAT THE GOG'S FREEZE ON REFINERY SALES PRICES ( SINCE DECEMBER 1970) HAD TO BE LIFTED IN ORDER TO ASSURE SUPPLIES IN THIS PERIOD OF WORLDWIDE SHORTAGE AND TO AVOID REFINERY LOSSES. ARANA REPORTEDLY REPLIED THAT THE POLITICAL SITUATION COULD NOT SUSTAIN A PRICE INCREASE AT THE CONSUMER LEVEL AND ASKED THE COMPANIES TO WAIT UNTIL MARCH 1974 ( AFTER THE ELECTION). GARDINER SAID HE BELIEVED BOTH FIRMS' REPRESENTATIVES WOULD BE VISITING THEIR HEAD-QUARTERS FOR FURTHER ADVICE. TEXACO, PART- OWNER OF ONE GUATEMALAN REFINERY, DID NOT PARTICIPATE IN THE APPEAL.

3. GARDINER'S SERIOUS CONCERN CENTERS ON THE PIVOTAL POSITION OF GUATEMALA, THE ONLY GOVERNMENT IN THE AREA TO HAVE FROZEN REFINERY SALES PRICES. THIS WAS DONE TWO YEARS AGO WHEN CRUDE PRICES WERE CONSIDERABLY LOWER THAN TODAY. SINCE, APART FROM COSTA RICA, THE PRICE OF ALL CRUDE IS BASED ON A CARIBBEAN PARITY, PRICE INCREASES REFLECT THE FORCES OF THE MARKET AND TO ATTEMPT TO SUSTAIN A LOWER REFINERY SALES PRICE WOULD IN THE LONG RUN LEAD TO LOSS OF SUPPLY. GUATEMALAN REFINERY SALES PRICES ALREADY ARE SOME 20-25 PERCENT LESS THAN OTHER CA REFINERIES WHICH HAVE PARTIALLY ADJUSTED UPWARD WITH THE CARIBBEAN PARITY. AN ADDITIONAL CARIBBEAN PARITY PRICE INCREASE IS ANTICIPATED WHICH IS TRANSLATED TO SOME \$0.03 PER BARREL. GARDINER SAID RETAIL PRICES HAVE NOT INCREASED IN ANY CA COUNTRY SINCE MARCH 1972, SO THERE IS LITTLE MARGIN FOR ABSORBING INCREASED COSTS. ESSO FEARS THAT GUATEMALA'S FREEZE MIGHT BE EMULATED ELSEWHERE IN CA IF REFINERIES ATTEMPT ANOTHER ROUND OF SALES PRICE INCREASES TO MEEK HIKES IN CRUDE PRICES. ESSO INFORMED US TODAY THAT HONDURAN GOVERNMENT HAS JUST ORDERED ROLL BACK IN PRICES TO FEBRUARY 28, 1973 LEVEL. GARDINER SAID THAT SHOULD

ESSO FACE SUCH A POLICY IN EITHER EL SALVADOR OR NICARAGUA WHERE IT MANAGES THE ONLY REFINERY, IT WILL TAKE A FIRM POSITION THAT SUPPLIES WILL NOT BE ASSURED. EFFORTS WILL BE MADE TO AVOID A  
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CONFRONTATION, BUT THE TIGHT MARKET AND INCREASINGLY HIGHER BIDDING FOR CRUDE FROM OTHER CONSUMER AREAS ( E. G. US) MAKES AVOIDANCE OF A SUPPLY CURTAILMENT EXTREMELY DIFFICULT.

4. THE RESPONSE OF CA GOVERNMENTS TO THE COST/ PRICE SQUEEZE WAS DISCUSSED AND GARDINER VOICED HIS CONCERN THAT GOVERNMENTS HAD NOT THOUGHT THROUGH THEIR OPTIONS AND

COMPANIES FOUND IT DIFFICULT TO OBTAIN AN ADEQUATE HEARING, MUCH LESS UNDERSTANDING. HE ANTICIPATED THAT THE PREDICTABLE GOVERNMENT RESPONSE TO A CUT-OFF OF SUPPLIES WOULD BE NATIONALIZATION OF THE REFINERY. HOWEVER, HE POINTED OUT THAT THIS WOULD NOT SOLVE THE SUPPLY PROBLEM SINCE THE NATIONALIZED REFINERY WOULD STILL HAVE TO PAY GOING CRUDE PRICES TO GET OIL. NEITHER WOULD GOVERNMENT-TO-GOVERNMENT CONTRACTS PRECLUDE THE NEED TO PAY THE GOING CRUDE RATE, AS EVIDENCED BY THE LACK OF RESPONSE OF LA PRODUCER COUNTRIES TO REQUESTS FROM SISTER LA'S FOR PREFERENTIAL PRICE TREATMENT ON OIL.

5. GARDINER IS HOPEFUL THAT AMBASSADOR BOWDLER MIGHT BE ABLE TO CONVEY SOME OF THE SE REALITIES OF THE AREA OIL MARKET TO APPROPRIATE GOG DECISION MAKERS AND THAT OUR OTHER MISSION WILL, THROUGH AWARENESS OF THE SITUATION, ALSO CONVEY THESE REALITIES TO HOST COUNTRY OFFICIALS SO AS TO AVOID WHAT COULD BE A SERIOUS CONFRONTATION BETWEEN THE CA'S AND THE PRINCIPALLY US-OWNED OIL INDUSTRY. GARDINER EXPRESSED HIS VIEW THAT TEXACO, WITH ITS PREPONDERANT INTEREST IN REFINERIES (GUATEMALA, HONDURAS, AND PANAMA) SHOULD BE MORE IN FRONT ON THIS PROBLEM OF MORE EFFECTIVE COMMUNICATION WITH GOVERNMENTS.

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**To:** CARACAS  
EB  
GUATEMALA  
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